

VZCZCXRO1481  
OO RUEHCN RUEHGH RUEHVC  
DE RUEHBJ #2064/01 2011045  
ZNR UUUUU ZZH  
O 201045Z JUL 09  
FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5288  
RUCPDO/DEPT OF COMMERCE WASHDC IMMEDIATE  
INFO RHEHNSC/NSC WASHDC  
RUEHOO/CHINA POSTS COLLECTIVE  
RUEHRC/DEPT OF AGRICULTURE WASHDC  
RHMFIUU/DEPT OF ENERGY WASHINGTON DC  
RUEAEPA/HQ EPA WASHDC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHGV/USMISSION GENEVA 2515  
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 06 BEIJING 002064

SENSITIVE  
SIPDIS

STATE PASS USTR FOR DMARANTIS, TSTRATFORD, AWINTER,  
JGRIER  
STATE FOR EEB/TPP WCRAFT, EMAGDANZ, HHELM, EAP/CM  
SFLATT, EEB/ESC DHENGEL  
COMMERCE FOR ITA MONEILL (1000), MAC IKASOFF (4400),  
IA (5120), FCS (3130)  
TREASURY FOR OASIA/RDOHNER  
NSC FOR JLOI  
GENEVA PASS USTR

E.O. 12958: N/A  
TAGS: [ECON](#) [ENRG](#) [ETRD](#) [EAGR](#) [EIND](#) [EINT](#) [BEXP](#) [CH](#)

SUBJECT: Secretary Locke Discusses Bilateral Trade  
and Clean Energy with Minister of Commerce Chen  
Deming

(U) This cable is Sensitive But Unclassified (SBU).  
Please handle accordingly.

Summary:

1. (SBU) Secretary Locke and delegation and D/USTR  
Demetrios Marantis met July 15 with Minister Chen  
Deming and senior MOFCOM officials for a 90 minute  
discussion of bilateral trade and commercial issues  
including clean energy cooperation, global warming,  
trade remedies, Buy America/Buy China policies, and  
China's accession to the Global Procurement  
Agreement. Regarding China's specific trade  
concerns, Chen categorized the outcome of the  
ongoing USITC Section 421 safeguards case concerning  
U.S. imports of Chinese tires as China's "biggest  
concern," noting he had written to Ambassador Kirk  
recently to urge U.S. restraint. Chen also pointed  
out that China was concerned by the large value of  
anti-dumping/countervailing duty (AD/CVD) and  
safeguards actions taken during the 111th Congress,  
which numbered 20 cases by China's count. Chen  
expressed appreciation for Locke's role in his April  
visit to the U.S.

Summary continued:

2. (SBU) Chen also provided a detailed briefing on  
China's economy, noting that China's sustained  
prosperity ultimately depends upon a solid U.S.  
recovery. For the first half of 2009, China's GDP  
growth rate was 7.1% and retail sales were up 15.1  
percent versus the prior year. During the same period,  
however, exports dropped 21 percent year-on-year and  
foreign direct investment was down 20-21 percent.  
China's stimulus is helping the domestic economy to  
compensate for declining trade, and U.S.-China trade  
has declined less than China's overall trade with  
the world. Official assessments suggest China's

upturn is however "slight...unstable, and fragile" due to a sharp drop-off in external demand. Chen indicated that he expects China to maintain its current proactive fiscal policy and moderately easy monetary policy. End Summary.

#### Joint Commerce-Energy Visit Promotes Cooperation on Clean Energy

¶3. (SBU) Minister Chen noted this was Secretary Locke's first visit to China as a Cabinet member. He thanked Locke for the invitation to visit the U.S. in April and praised the Administration's high tempo of U.S. - China bilateral visits and cooperation. Secretary Locke noted that his joint visit with Secretary Chu is intended to promote bilateral cooperation on energy efficiency, alternative energy, and climate change, an area which could generate millions of jobs. China and the U.S. should lead the worlds developing and developed nations on these urgent issues, he stated. Locke highlighted his July 16 stop in Shanghai to break ground for the U.S. Pavilion at the Shanghai World Expo. Locke also stated that he plans to attend the proposed late-October U.S.-China Joint Commission on Commerce and Trade (JCCT) session in Hangzhou, China and lead a clean energy trade mission to China this Fall (Note: DOC's notional plan at present is for two separate visits in September and October. End Note.)

U.S. Commercial Issues: Civilian nuclear power,

BEIJING 00002064 002 OF 006

Inner Mongolia energy project, China East Star

¶4. (SBU) The Secretary requested China's favorable consideration of proposals pending by GE and Westinghouse for civilian-nuclear technology projects in China as well as a GE coal gasification plant project in Inner Mongolia. Referring to his prior meeting with Minister Li of the Ministry of Industry and Information Technology (MIIT), Locke praised Li's delayed implementation of an MIIT rule requiring mandatory installation of Green Dam internet filtering software on computers sold in China. Locke also emphasized the U.S. seeks release of planes leased by GE Commercial Aircraft Services to China East Star airlines, as local Chinese airport authorities are refusing to adhere to international law and refusing to comply with a Chinese bankruptcy court ruling which orders the planes to be released.

Chen on State of China's Economy: "Better," But Upturn "Fragile"

¶5. (SBU) Chen expressed pleasure at Locke's speaking with "candor and in a straightforward way" and then provided a detailed briefing on the state of China's economy. For the first half of 2009, China's GDP growth rate was 7.1 percent and retail sales were up 15.1 percent versus the prior year, he reported. During the same period, exports dropped 21 percent year-on-year and foreign direct investment declined 20-21 percent. China stimulus was helping the domestic economy compensate for declining trade, and U.S.-China trade had slowed less than overall trade. China's trade surplus was down, indicating a greater role for imports. However, official assessments suggest the upturn is "slight...unstable, and fragile" due to the sharp drop-off in external demand. Accordingly, China will maintain its current proactive fiscal policy and moderately easy monetary policy -- but without a U.S. recovery, the future is uncertain. China cannot be successful if it is the only economy in the world that is growing, Chen concluded.

China Proposes Hosting 20th JCCT October 29 in Hangzhou

¶16. (SBU) Chen remarked that China has proposed that the 2009 Joint Commission on Commerce and Trade (JCCT) be held October 29 in Hangzhou, with a preliminary dinner on the evening of October 28, as previously proposed by China at a July 14 meeting between JCCT leads MOFCOM Vice Minister Ma Xiuhong and DOC Under Secretary O'Neill and D/USTR Marantis. Chen praised Locke's hard work in honoring a pledge he made in April to work with Secretary Clinton to ensure a U.S. presence at the Shanghai Expo.

China's Position on Climate Change: As Stated At G5

¶17. (SBU) China attaches great importance to clean energy and emission reduction, Chen continued, and National Development and Reform Commission (NDRC) Chairman Zhang Ping had already briefed Secretary Locke on China's position on global warming. The position is the same one China expressed at the recent G-5. Today's carbon levels are the result of decades of cumulative pollutants, a view that Chen claimed was confirmed by an expert study he commissioned while at NDRC. On climate change

BEIJING 00002064 003 OF 006

issues, China intends to adhere to the UN Framework Convention on Climate Change (UNFCCC) and believes developed and developing countries should have "shared but differentiated responsibilities." China is ready to work toward energy use reduction and emissions reductions by 2050, but does not wish to commit to any targets. China opposes carbon tariffs in international trade, and questions whether these would be WTO-consistent. The American Clean Energy and Security Act is helpful for reducing U.S. emissions, Chen indicated, but China remains concerned about proposals for a carbon tariff in international trade. [Note: Chen claimed "colleagues say that President Obama does not agree with imposition of carbon tariffs as protectionist."]

China's Response to U.S. Commercial Issues

¶18. (SBU) Chen acknowledged U.S. requests to consider including GE's gasification project and GE and Westinghouse's interest in China's nuclear power plant projects. There is great potential for China and the U.S. to work together on clean energy technology, Chen said, citing advanced work by the Xi'an Research Institute in Shaanxi province. China's technologies may differ from those of companies such as GE, but both sides can work together, and a GE visit to the Institute benefitted both sides. On the China East Star case, Chen said MOFCOM is "paying a lot of attention" but the matter is complicated by judicial involvement and creditor-debtor relations. Senior officials at the Civil Aviation Authority of China (CAAC) are coordinating with local authorities and MOFCOM "hopes the case is handled properly."

China Trade Issues: Section 421, AD/CVD, Section 727, OCTG

¶19. (SBU) China's priority concern is the Section 421 tire safeguards case, Chen said. He portrayed the case as one of many, claiming 20 anti-dumping/countervailing duty/safeguards actions have been launched under the 111th Congress and suggesting "protectionism in the U.S. on the rise". Another example, he said, is the U.S. Section 727 ban on the import of poultry from China, a blatantly

discriminatory provision aimed only at China. While U.S. safeguards may be allowed under China's WTO accession protocol, Chen continued, they were drafted to be applied in a certain historical period. Chen recalled that the prior Administration faced six safeguards cases, but took no actions on any. He recalled a recent letter he sent to Ambassador Kirk expressing concern about the Section 421 tires case as precedent-setting, and asked Ambassador Marantis to emphasize the point to USTR Kirk upon his return to Washington. Chen maintained that the recent U.S. anti-dumping case on Oil Country Tubular Goods (OCTG) was a huge one in value terms. At the same time, MOFCOM was under tremendous pressure from Chinese interests to take AD/CVD action against rising U.S. agricultural exports to China -- "We are constantly being asked 'Why are you not filing any cases against U.S. companies'" In light of global economic crisis, China and the U.S. had agreed at the G20 Summits in Washington and London to be very cautious in using trade remedies. While some of the pending AD/CVD/Safeguards cases could wait until the JCCT to be discussed further, Section 421 requires a

BEIJING 00002064 004 OF 006

decision before October.

China Open to U.S. Investment, Particularly in Energy Sector

¶10. (SBU) China is ready to cooperate and open to U.S. investments in the energy sector, Chen reiterated, and U.S. investors are welcome to take part in China's plans for building a large eco-park. Promise exists for cooperation in other areas such as use of agricultural products for electricity and alternative fuel sources as well.

Green Dam: Chen Recommended Delay Due to Technical Shortcomings

¶11. (SBU) Regarding MIIT's proposal for mandatory installation of Green Dam internet filtering software, Chen stated that he had advised MIIT's Minister Li to delay implementation of the software installation requirement not only because of the concerns expressed by the U.S., but also because of "technical shortcomings".

Locke: U.S. Concerned over "Buy China"

¶12. (SBU) Picking up on Chen's comment regarding U.S. protectionism, Locke countered that the U.S. opposed protectionism in all forms. Locke observed that both China and the U.S. needed to open more markets, not close them, in order to promote a global recovery. Furthermore, protectionism is a concern wherever it occurs, and China's Buy China policy in procurement practices has been noted by all countries. Locke said use of AD/CVD trade remedies is part of a mature trading relationship and the DOC must rather act a quasi-judicial agency to investigate cases. He pledged that the agency will carry out its role fairly and in accordance with the law. Locke added that a recent analysis by his staff found that the total number of AD/CVD cases year to date was actually less than in 2007 or 2008.

Chen: Market Economy Status (MES) Limits Trade and Investment

¶13. (SBU) Chen singled out U.S. insistence on treating China as a non-market economy as another reason for problematic AD/CVD cases. He urged the U.S. to use third countries as a way to provide

comparative data in such cases. He contended that the MES issue slows the expansion in two-way bilateral trade as well as Chinese investment into the U.S. Chen felt that a successful outcome to the U.S.-China Bilateral Investment Treaty (BIT) negotiations ongoing this week should help both countries.

Chen: MOFCOM Statement Covers U.S. Concerns Over Buy China

¶14. (SBU) Regarding Locke's concerns on "Buy China" policies, Chen agreed that misunderstandings had arisen as to how products made by foreign invested enterprises in China would be treated when it comes to government procurement. To correct any misperceptions, MOFCOM (and NDRC as well, Chen thought) had issued a statement following his EU visit to clarify that "Made in China" includes

BEIJING 00002064 005 OF 006

companies legally incorporated in China with foreign investment. [Note: Embassy notes that the MOFCOM statement referenced by Chen, while helpful, may not have legal force as it is a press release rather than an official policy.]

China's Accession to WTO GPA, Activity by Foreign Firms

¶15. (SBU) China is not legally obliged to allow foreign participation in its government procurement contracts, as it is not yet a member of the GPA, Chen continued. However, foreign companies do participate in such contracts. He then mentioned that he had heard that some U.S. states and localities waive GPA requirements, despite the U.S. status as a GPA member. While China hopes to move ahead on its GPA accession soon, in practice this depends upon many GPA member countries and not just the U.S.

¶16. (SBU) "Our hope is that the U.S. government and GPA members adopt a flexible and realistic attitude" when it comes to China's GPA offer, Chen said. He urged existing GPA parties not apply too high a bar for China, a developing country. Chen claimed foreign companies had won contracts to supply products under China's program to distribute electrical appliances to the countryside. In addition, he said, GE, Siemens, and ABB are all competing for contracts under China's high-speed rail projects. For their part, Chinese companies are highly competitive in engineering services and are ready partners for U.S. infrastructure projects -- having receiving many inquiries already from interested U.S. construction firms.

Locke: MES analysis underway, Commerce Actions on Buy America

¶17. (SBU) Locke closed the meeting by noting that progress is ongoing on China's consideration for market economy status, and both countries are exchanging information. He clarified that U.S. "Buy America" provisions in the stimulus bill only apply to stimulus funded projects, and not to normal procurement by U.S. states, or the federal or local governments. And despite the Buy America provisions in the stimulus, the Departments of Commerce and Agriculture had waived Buy America requirements for approximately \$5 billion for a high speed internet program and \$2 billion for USDA funded procurement, demonstrating their commitment to do whatever possible to fight protectionism.

18. (SBU) Participants:

U.S.

-----

Mr. Gary Locke, Secretary of Commerce, DOC  
Mr. Robert Goldberg, Charge d' Affaires, U.S.  
Embassy Beijing  
Mr. Chris Lu, Assistant to the President and  
Cabinet Secretary  
Mr. Demetrios Marantis, Deputy United States Trade  
Representative, USTR  
Ms. Michelle O'Neill, Acting Undersecretary for  
International Trade, DOC  
Mr. Tim Stratford, Assistant U.S. Trade  
Representative for China, USTR

BEIJING 00002064 006 OF 006

Mr. Ira Kasoff, Deputy Assistant Secretary for Asia,  
DOC  
Ms. Ellen Moran, Chief of Staff, DOC  
Mr. Chris Adams, Minister Counselor for Trade  
Affairs, U.S. Embassy Beijing  
Mr. William Brekke, Commercial Councillor, U.S.  
Embassy Beijing  
Ms. Teresa Howes, Director, Market Access and  
Compliance, DOC, U.S. Embassy-Beijing  
Mr. Jeffery Young, First Secretary, Economic Section,  
U.S. Embassy-Beijing  
Ms. Lisa Rigoli, Trade Policy Officer, Market Access  
& Compliance, DOC, U.S. Embassy-Beijing  
Interpreter

PRC

----

Mr. Chen Deming, Minister of Commerce (MOFCOM)  
Ms. Ma Xiuhong, Vice Minister, MOFCOM  
Mr. Li Zhiquin, DG, Foreign Investment  
Administration Department, MOFCOM  
Mr. Zhang Ji, DG, Mechanical, Electronic and Hi-Tech  
Industry Department, MOFCOM  
Mr. Zhang Kening, DG/Commercial Counselor,  
International Trade and Economic Affairs Department,  
MOFCOM  
Mr. Shen Danya, Ex-Vice President, Chinese Academy  
of International Trade and Economic Cooperation,  
MOFCOM  
Mr. Li Chengang, DDG, Treaty and Law Department,  
MOFCOM  
Mr. Liang Shuhe, DDG, Foreign Trade Department,  
MOFCOM  
Mr. Liu Danyang, DDG, Bureau of Fair Trade for  
Imports and Exports, MOFCOM  
Ms. Wang Hongbo, DDG, Department of North American  
and Oceanian Affairs, MOFCOM  
Mr. Wang Xu, Director of US Division, Department of  
North American and Oceanic affairs, MOFCOM  
Mr. Liu Danyang, DDG of Bureau of Fair Trade, MOFCOM  
Interpreter

19. (U) Secretary Locke's delegation did not have  
the opportunity to clear this message before  
departing.

GOLDBERG